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## ECONOMIC POLICY, ORGANIZATION, AND MANAGEMENT

### OFFICIAL DISCUSSES PRICES AS MANAGEMENT TOOL

Moscow DEN'GI I KREDIT in Russian No 1, Jan 80 pp 18-22

[Article by A. N. Komin, deputy chairman of the USSR State Price Committee: "Price Formation and Efficiency"]

[Text] Prices are a most important lever of economic management. The effectiveness of measures related to improving planning and material incentives in industry and construction depends largely upon the economic soundness of the prices. Prices underlie all value economic indicators, beginning with such general national economic ones as social product, national income, the sectorial proportions, and ending with the indicators of the associations, enterprises and economic organizations characterizing the production volumes, expenditures, costs and profit. Here prices operate primarily as an across-the-board national economic standard on the basis of which the indicators for the effectiveness of economic development are formed.

Since price formation functions within a system of other economic levers and economic management methods and primarily those such as the plan, economic accountability, finances and credit, its role in raising production efficiency must be viewed in a complex and interaction with the entire economic mechanism.

In the Decree of the CPSU Central Committee and the USSR Council of Ministers "On Improving Planning and Strengthening the Effect of the Economic Mechanism on Raising Production Efficiency and Work Quality," at the present stage important demands have also been placed on price formation in the range of measures to improve national economic management. Their fulfillment requires a fundamental improvement of work in the area of price setting so that prices become a more effective lever for realizing the economic policy of our party. If one were to speak about the essence of the new demands on price formation, they come down to strengthening the role of wholesale prices and rates in the economic incentives for scientific and technical progress, the strictest savings of fuel and energy resources, ferrous and nonferrous metals, raw products and materials in the national economy, to improving product quality, as well as the fuller reflection in



prices of the socially necessary expenditures on product output. All of these requirements stem from the decisions of the 25th CPSU Congress.

Naturally, the work in the area of further improving price formation in the nation should be carried out in close correlation to all the measures which will be implemented to carry out the designated decree of the CPSU Central Committee and the USSR Council of Ministers, and above all the measures to improve planning, financing, economic accountability and the economic incentive methods.

The decree of the CPSU Central Committee and the USSR Council of Ministers provides for a greater role of the five-year plan as the main form of planning the nation's economic and social development and the basis for organizing the economic activities of the ministries, departments, associations, enterprises and all other organizations. It has also been judged necessary to ensure the further development of economic accountability in the production associations, enterprises, and construction-installation organizations on the basis of the quotas of the five-year plan and the long-range economic standards approved for the 5 years, including the wage fund and the economic incentive fund, and so forth. From this derives the important demand for strengthening the stability of wholesale prices and rates. For this reason, the decree provides that over the five-year plan, wholesale prices will remain stable in industry, as will the construction estimates in capital construction and the rates for freight shipments.

This new circumstance places its own demands upon price formation, and above all on improving the quality of work in the area of the economic soundness of the prices and rates. The associations and enterprises, the ministries, departments and price formation bodies should improve work in setting prices, bearing in mind the more careful establishing of them considering the expenditures and effectiveness, a rise in the effectiveness of approving the prices for new products, particularly for consumer goods, and preventing instances of the inflating of prices. Ultimately prices under the new conditions should more precisely reflect the socially necessary expenditures on producing the product, and be a more stable and reliable economic norm for measuring production efficiency and providing stability in the five-year plan quotas.

At present, work is being done to revise the wholesale prices and rates in industry. The carrying out of this work stems directly from the decree of the CPSU Central Committee and USSR Council of Ministers. The wholesale price revision should create a new system of prices in industry, and it will be an important stage in improving prices in light of the requirements of the decree.

In speaking about the stability of prices and rates, it is essential to bear in mind that since the price is based upon expenditures and reflects the production and sales conditions, in their economic essence they are a relatively mobile category. In this regard the decree provides a number of measures, including a wider practice of employing fixed payments for those

types of products which are produced over a long time, as well as in the sectors where high profitability would be formed as a result of a reduction in costs. For these purposes, for adjusting the profitability level, new, lower wholesale prices will be set for individual product types for the manufacturers in maintaining the current wholesale prices for these products for the consumers. The mobility of the prices will also be manifested through such forms as the more active use of surcharges and rebates for product quality. Naturally, under the conditions of a planned economy, fundamental changes in the price and rate system and changes in their levels should be carried out in the general revisions.

The decree of the CPSU Central Committee and USSR Council of Ministers outlines a number of specific measures to improve the methodology and practice and price formation. This work should be carried out in a direction of strengthening the role of the limit prices, raising the responsibility of the clients, the developers and the manufacturers for the economic soundness of expenditures on a new product, as well as in exercising control over the development and putting into production of high quality machines and equipment.

In carrying out these measures an important role is played by the incentive role of the price surcharges for new highly efficient production and technical products, as well as by broadening the use of price rebates for products of the second quality category. It is also important to strengthen the role of prices for reducing metal intensiveness, for encouraging the use of cheap types of raw products and materials, as well as for reducing the labor intensiveness of the articles.

The incentive surcharges on the wholesale prices will be set for new types of highly efficient production and technical products in an amount of from 0.5 to 1.25 of the profitability rate depending upon the annual economic effect, but not more than 70 percent of the amount of the effect. These surcharges are set for 1 year, but for particularly complicated products, they may be up to 2 years. If during this time the product receives the state Quality Mark, the effect of the surcharge can be extended considering this so that its overall period is up to 4 years, and for particularly complicated products, up to 5 years. Here if the production of such products is based upon developments which are recognized as discoveries or inventions within the established procedure, the amount of the surcharge is increased by 1.5-fold.

The set surcharges will basically remain at the disposal of the enterprises and be used to supplement the economic incentive funds. Up to 70 percent of the additional profit (the total of the surcharges on the wholesale price) obtained by the enterprises from the sale of new highly effective products and products with the state Quality Mark, will be channeled into the economic incentive funds, while the remaining portion will be distributed between the unified scientific and technical development fund and the state budget.

With the recertification of the product and the awarding of the state Quality Mark a second time, the incentive surcharge and the deductions into the economic incentive funds will be kept in the same amount, if there has been a further improvement in the technical and economic parameters for this product. But if the technical and economic parameters do not improve, the amount of the surcharge and the period of its action will be cut in half. Such a procedure will provide an incentive for a continuous improvement in the technical level of the produced product, even that with the Quality Mark.

Provision has also been made to encourage a rise in the quality of the produced consumer goods. In assigning the state Quality Mark to new consumer goods, the temporary wholesale and retail prices set for these goods will maintain in effect during the entire period of the Quality Mark. With a significant improvement in the quality of the produced goods and the awarding of the state Quality Mark to them, the deductions into the economic incentive funds will be made in increased amounts in accord with the approved rates.

The question of the rebates on the wholesale prices for second quality products has been fundamentally settled. This problem is not a new one, it has long been posed, but there was no consistency in actual implementation. The rebates were applied only in individual ministries, and there was no uniform methodology for employing them and monitoring their use. It can be said that this mechanism had little effect in the system of economic incentives.

Under present-day conditions, the rebates have been given a smaller role than the surcharges. For the second quality products as well as the products which have not been certified in the established time, rebates will be employed on the wholesale price amounting to 50 percent of the total profit received from the sale of these products. At the end of the period for removing the second quality products from production, the rebates on the wholesale price will be the full amount of the profit. Here the product will be sold at prices without the rebates, and the total of the rebates will be paid to the state budget.

For strengthening the economic effect of the entire mechanism of surcharges and rebates for product quality, it has been established that the plans will be given to the associations and enterprises without considering the rebate, and the assessment of plan fulfillment will be made considering the effect of the surcharges and rebates. The surcharges will provide the earning of additional profit and the replenishment of the economic incentive funds, while the rebates, on the contrary, will put the enterprises producing poor quality products in a difficult situation.

The questions of utilizing the money in the funds for the development of new equipment have been settled in a new way. It must be said that the mechanism which has existed up to the present for employing the money of

the fund for the development of new equipment as set 15 years ago is obsolete and does not correspond to the present conditions of economic accountability and incentives. For the enterprises it was "disadvantageous" to use the special funds to cover the expenditures on the development of new equipment, as they lost this amount of the sold commodity product and also the profit. Because of this, the enterprises endeavored to include the expenditures on development in the prices so that the expenditures were reflected in the volume cost indicators. Naturally this led to an overstating of the prices while the money in the fund for the development of new equipment was not fully employed.

With the publishing of the decree, the situation in this area has been fundamentally altered. It has been established that the cost of the work financed from the money of the unified scientific and technical development fund will be accounted for in the total product volume with the deductions of the normed profit for the corresponding group of products. Conditions have been created whereby the associations and enterprises will be interested in fully utilizing the money earmarked for the development of new equipment. This will make it possible to set more soundly the wholesale prices for new product types, and this will ensure the stability and steadiness of the price system.

The saving of material and labor resources is of primary significance in increasing production efficiency. The economic management mechanism, economic accountability and incentives should be aimed at reducing product costs, using all the reserves existing in production for this. It cannot be said that the current economic incentives have always met these requirements. Often it was more advantageous for the enterprises and design organizations to conceal the reserve of economy, and to produce a more material-intensive product, in "weighting" its cost for the sake of fulfilling the volume indicators. Ultimately this led to high prices for newly developed types of products and to the output of ineffective equipment.

For rectifying this situation, of fundamental significance are the provisions stipulated in the decree that in utilizing cheap types of materials in production, in comparison with the employed ones, and in maintaining product quality on the former level at the same time, the wholesale prices for these products will remain unchanged up to the end of the five-year plan. In this manner the enterprise is given a firm guarantee that its efforts in saving material expenditures will be directly reflected in the results of economic activities.

Of equally important significance is the other provision that wholesale prices for new articles with lower material intensiveness will be set considering the maintaining the amount of profit to be obtained from the sales of the previously produced (replaced) product, but not lower than the profitability norm. Here, for determining the production volumes and labor productivity up to the end of the five-year plan, wholesale prices will be used as set in the plan for the replaced product. The setting of such a procedure creates conditions for the associations and enterprises



and their design organizations to design and create cheaper types of new products.

The correct coordinating of price formation, planning, financing and economic accountability is of great significance in the questions of encouraging technical progress. The enterprises which develop new equipment as well as higher quality products often fall into difficult economic situations due to the fact that during the period of development their expenditures not only grow, but also production volumes are reduced. This is a temporary phenomenon, since in developing a new product the rate is increased as well as the recovery of losses.

Previously, as a rule, such temporary drops were not considered in the enterprise plans. The plans were determined on the "base" for the previous period. The enterprises which did not fulfill the plan quotas were in a difficult financial situation, and their economic incentive funds were reduced. The achieving of technical progress requires a more flexible approach to planning the volume indicators of the associations and enterprises.

The decree has permitted the ministries and departments to make changes in the annual plans of the production associations and enterprises, if in comparison with the approved plan, their total quantity of produced articles and other indicators decline because of the development and increase in the output of high quality production and technical products or new high quality consumer goods.

The decree provides that the obsolete standards for machinery and equipment will be revised, including in the new standards, along with the other quality characteristics, the demands which would define a reduction in the weight of the articles, a reduction in the consumption of fuel and energy in the process of operating them, as well as standardization of the parts, assemblies and instruments. The price formation bodies should take an active part in carrying out this work. The quality characteristics of the product must include all the indicators which are related to expenditures on production and economic efficiency. Only in this instance can the prices most actively influence production. In this work there must be a closer link between the USSR State Price Committee and the USSR Gosstandart [State Standards Committee].

As is seen, all the measures in the area of improving price formation and increasing the incentive role of prices are closely related to the measures of improving planning, financing, crediting, economic accountability, and so forth. A comprehensive approach to the solving of economic management problems is an important feature of the decree approved by the CPSU Central Committee and USSR Council of Ministers.

It must also be stressed that the above-mentioned measures in the area of improving the practices of setting prices for new types of products and aimed at improving the efficiency and quality of the products, proceed from



the principle of the more complete reflection of the effect and realization of this at the enterprises which create the new equipment and provide a savings of material and labor expenditures. Such an approach meets the approved economic incentive mechanism, it corresponds to the controlling of the results of enterprise economic activities, and corresponds to the real contribution of each enterprise in the struggle to raise production efficiency. The realization of the effect at the place it is created provides conditions for controlling its use, and ensures a mobilization of additional resources in accord with the decisions of the national economic planning tasks. Finally, all these measures are aimed at creating the most favorable conditions for developing the initiative of the associations and enterprises to carry out measures to reduce product costs from a savings of fuel, energy, raw products, materials and labor resources.

The decree also solves a number of other questions which are of important significance for the methodology and practices of price formation. In this regard, it is essential to stress primarily the new methodological approaches to determining profitability and profit in setting prices. Up to the present, the most widely found method of profit planning has been the determining of it proportionately to product costs. Such a method had an essential drawback which was that the amount of profit was higher for those product types where the proportional amount of material expenditures and preassembled articles was greater. Thus, this important indicator for production efficiency was not correlated to the actual contribution of the enterprises to creating the product. In a number of instances this did not correspond to the orientation of the economic mechanism to the end results. This also did not interest the enterprises in reducing the cost of material resources.

The decree of the CPSU Central Committee and USSR Council of Ministers has proposed that profitability in the manufacturing sectors of industry be determined for the product types as the ratio of profit to costs minus the cost of the used raw products, fuel, energy, materials, semifinished products and preassembled articles.

This principle for setting profitability is methodologically much closer to such a new indicator as the volume of net product (normed). For introducing this indicator, the price formation bodies as well as the ministries and departments, along with the prices, should also set net product rates. The net product rate would be a portion of the price reflecting the wages involved in producing the given product and the obtaining of a profit. Due to the fact that the costing does not reflect all wages spent on producing the product, but only the wages of production workers are isolated, the evaluation of total wages in setting the net product rate would be carried out conditionally by a calculation method. It is important that the methods for determining the normed net product be generally accessible, relatively simple and not labor intensive, that they be controllable, and also not contradict the price formation methodology. One of the methods for evaluating the total volume of producing the given type of product can be the determining of wages using coefficients which reflect the ratio of the wage

fund for the given enterprise or association producing this product to the wage fund of the production workers.

The decree of the CPSU Central Committee and USSR Council of Ministers provides for a greater role in the economic evaluation of production resources. Along with the payment for productive capital, a payment is also to be introduced for water taken by the industrial enterprises from the water management systems. There are also plans to consider the economic evaluation of land plots allocated for the building of enterprises in the technical and economic background studies for the construction of enterprises and in comparing the economic variations for this construction. There are also plans to increase the current payment rates for state social security. As is known, these rates were set in the 1950's and as an average for industry are 7-7.5 percent. They cover only one-third of the expenditures of the social budget. It is envisaged that the new rates would more fully cover the expenditures on the reproduction of the labor resources, that they would more correctly reflect the economic effect from the introduction of new equipment, and to a greater degree encourage the rational utilization of the labor force.

The carrying out of the Decree of the CPSU Central Committee and USSR Council of Ministers "On Improving Planning and Strengthening the Effect of the Economic Mechanism on Raising Production Efficiency and Work Quality" demands from the price formation bodies, the ministries and departments a fundamental improvement in price formation work in increasing the role of prices in carrying out the economic policy of the party.

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## ECONOMIC POLICY, ORGANIZATION, AND MANAGEMENT

### VARIATIONS IN ENTERPRISE MANAGEMENT DISCUSSED

Novosibirsk EKONOMIKA I ORGANIZATSIYA PROMYSHLENNOGO PROIZVODSTVA (EKO) in Russian No 1, Jan 80 pp 115-125

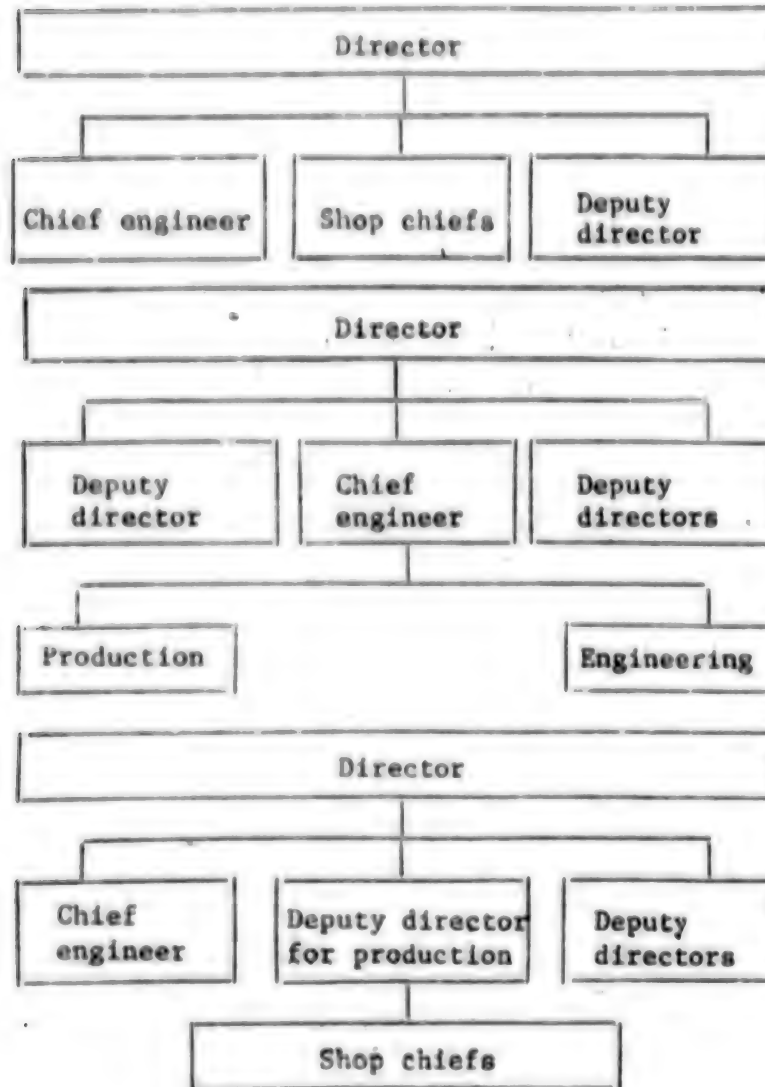
[Article by R. Kh. Yuksvyarav, doctor of economic sciences, professor, head of the department of industrial planning and management of the Tallin Polytechnic Institute: "The Place of Production Management in the Structure of Enterprise Management"]

[Text] There are certain principal variations in the direct management of production. Often the relevant duties are performed by the director, especially at very small enterprises; at large ones they are not uncommonly assigned to the deputy director for production. Frequently the chief engineer is concerned with the management of production, and sometimes this is done for all practical purposes through the production division. There are a number of substantial reasons for this variety.

Numerous normative acts, the Regulation on the Socialist State Production Enterprise in particular, have brought it about that the management of production is the director's responsibility. The principal idea behind this arrangement is clear: since the director must be responsible for the enterprise's entire activity, it is then natural that he should himself superintend and monitor its principal portion, that is, production. In addition, the director possesses all the resources.

If production is managed by another person in the enterprise--the chief engineer, this on the one hand is the result of the historical development of the structure of enterprise management, which is based on the technical competence of the chief engineer. The other reason was the close relationship between the engineering and technology side of production and its final results and the former's importance to the latter. In practice it is largely the chief engineer who in the everyday life of the enterprise takes and carries out the principal decisions concerning technical policy, the introduction of new technology and the servicing and maintenance of production equipment.

### Principal Variations of Production



The position of the deputy director for production is a relatively new solution, though in principle it has long been known in management. This version resulted mainly from the specific nature of the production process itself and from the enlargement of its scale. At small enterprises where it is not possible to create the position of this deputy director, the management of production is the responsibility of the chief of the production division or production control division. In fact even large enterprises are not an exception.

All of these variations have their good points and bad points. We will discuss them on the basis of our own research and consulting experience.

If production is superintended by the director himself, management begins at the first level and passes immediately to the second (the shops); this reduces the number of levels. But this structure does have serious shortcomings. The main one is that the director spends a great deal of time coordinating and regulating the work of the production subdivisions. In addition to the shop chiefs, several deputies and chiefs of staff subdivisions are also directly subordinate to him, not to mention a great number of other people as well. As a consequence production is often superintended in actuality by one of the deputy directors or the chief of the production division. Another shortcoming is that the position of shop chief is made equivalent to the position of deputy director. Only the director is able to straighten out disagreements that arise between them. This signifies an additional load on him.

When production is supervised by the chief engineer, high technical competence in management is assured. But here again there are certain essential shortcomings. The principal one is again the heavy load of work on the chief engineer and his constant lack of time. He actually must perform two large and important functions--the management of production and management of the technical preparation of production and the servicing and maintenance of production equipment. In practice the chief engineer finds a way out of this situation by concerning himself with either one or the other. Experience shows that it is very difficult to find a man who handles both tasks equally. There are exceptions, but sooner or later the overload will have an adverse effect on the health of the chief engineer.

There are cases when the chief engineer takes responsibility for the management of production, and he delegates the engineering and technology functions to his deputy or deputies. The functions of support services, for example, are in part delegated to a deputy director. As far as production goes, one can in principle agree with this solution. But it inevitably means that the engineering and technology side of production will suffer, above all the effective conduct of the enterprise's technical policy. The question arises: Why does this individual hold the position of chief engineer?

Sometimes the position of deputy chief engineer is created for general superintendence of production in order to solve the problem and in particular to take some of the burden of work off the chief engineer. But this solution cannot be regarded as the correct one, because of the low rank of management, placed down at the third level, and direct production drops all the way down to the fourth level. Coordination of production activity with other forms of activity at the enterprise becomes more difficult and complicated. This especially applies to obtaining services and assistance from outside.

Taking all this into account, we believe the most expedient variation to be the one in which the principal production operation is superintended by the deputy director for production. The management of production is distinguished as an independent form of activity along with the other forms of



activity (supply and sales, economic activity, technical preparation and supporting services, and so on), which has its own specific features and requirements. The deputy director for production holds a position at the second level of management; he can be assigned certain subdivisions, for example, the production division, and can be given the appropriate powers which are necessary and essential to effective coordination of activity in this domain and to effective performance of his functions. There is one other important circumstance: the activity of the deputy director is mainly related to solving problems within the organization.

This solution has been applied in the trucking industry of Estonian SSR, where the position of deputy director for operations has been adopted at motor transport depots and in associations. His authority covers all matters related to the conduct of the motor transport enterprise's principal activity, that is, he organizes freight shipments, day-to-day relations with customers, and so on. Imitating the favorable experience acquired in the industrial sector, rayon associations of Estonia Sel'khoztekhnika and certain of the republic's sovkhoses and kolkhoses have introduced the position of deputy director for production.

In industrial corporations of the United States there is ordinarily a president for production--a general manager, the man in the organization who is next to the top. His authority extends over all subdivisions and salaried positions which are indispensable to the successful performance of production, including the chief engineer and the division for supply, for the organization of work and normsetting, for operational planning, and so on.

Now let us turn to a few specific illustrations.

Carrying out the arrangement in which the deputy director superintends production, while the chief engineer supervises the conduct of technical policy, is both comparatively easy and comparatively difficult. In the case when the functions of production management have already become separate, the transition to this version causes no particular difficulties. If production and technology are closely interrelated, the management structure is worked out accordingly, the director or chief engineer have long since been managing production, and introduction of the position of the deputy director may turn out not only to be difficult and complicated, but even undesirable. We will demonstrate this with four examples.

#### Example 1

The position of the deputy director for production was introduced some 10 years ago at an enterprise in the meat and dairy industry. This was done on the present writer's recommendation. There had already been constructive experience at a combine where the director had previously worked in that same position. The correctness and effectiveness of the solution persuaded the director to such an extent that after he was appointed to the larger combine, one of his first steps in reorganizing the management

structure was to introduce the position of deputy director for production. He met with success in his new workplace as well. All the other meat combines in the republic followed his example.

Previous to that there was a lack of order at the enterprises, there were many maladjustments between the preparation of raw materials and the principal production operation. Although formally production was managed by the director, he did not have the time to concern himself with it in detail, and the chief process engineer, who mainly followed the course of production, frequently could not successfully solve all the problems that arose because of his position and particularly because he lacked the relevant powers. Not uncommonly the aims of the deputy director for purchasing, since he was above all interested in rapid rather than regular delivery of raw materials, disagreed with the requirements of the producer. Misunderstandings and conflicts arose between the managers, and that gave rise to difficulties in the operation of the enterprise as a whole. The first person appointed to the position of deputy director for production was the former chief of one of the combine's principal shops, and his education was in food manufacturing. In addition to the principal shops, he also had under him the chief process engineer's division and the purchasing division, the position of deputy director for purchasing was abolished, and many problems vanished. Now one man bore sole and specific responsibility for all the principal and interrelated forms of the enterprise's activity.

At one combine the former chief process engineer, whose education was in meat processing, became the deputy director for production. He still holds that position. Misunderstandings and conflicts related to delivery of finished products to the warehouse were eliminated because this responsibility was transferred from the deputy director for supply and sales to the new deputy director. As the result the purview, responsibility and importance of the deputy director for production grew even more at the combine.

But this is still not all. Future plans call for transferring the sales division to the deputy director for production as well. Questions the deputy director for supply and sales frequently cannot answer are passed on to the deputy director for production.

A proposal was made that the same procedure be carried out with the combine's motor pool and supply division, which were transferred to the chief engineer. This means that the combine will have two principal deputies to the director: the first, who is the superintendent of production, and the second, the chief engineer, who will be superintendent of supporting services.

## Example 2

The position of the deputy director for production at an enterprise in the food industry was created 10 years ago, but its history is not so clear and definite as in the first example. The reason was as follows. Formally,

the director himself was concerned with the management of production, but he did not have the appropriate higher education. The chief engineer was principally interested in creating new technology and new manufacturing processes and far less with current production problems, including the servicing and maintenance of production equipment. The plan for the specified assortment of products went chronically unfulfilled. This in turn led to difficulties in the operation of the sales division, disagreements with customers, and so on.

In that time the position of the deputy director for production has undergone a number of essential changes. It was first given to the former chief economist, who had worked in the factory for a long time. In addition to the principal shops and the production division, he continued to have authority over all the economic subdivisions as well. Constant difficulties in production that arose out of engineering and technology led to appointment of the former chief of the production division, who had a technical education and had shown himself to be an able young manager, to the position of deputy director for production. Of the staff subdivisions only the production division remained subordinate to him.

In order to guarantee fulfillment of the plan for the specified list of products, a few years later the duties of management of production were turned over to the deputy director for supply and sales (along with his staff subdivisions). When the director transferred to the latter to another factory, a worker from another organization was hired for the position of deputy for production in the hope that he could introduce computers at the factory because he was a specialist in the application of electronic computer equipment. Only the production division remained under his direction along with the principal shops. For personal reasons he was transferred last year to another plant.

After he left, a woman who previously headed the largest shop was appointed deputy director for production; she has the required technical education and a great deal of practical production experience at the factory. In a relatively short time in the new position she was able to put matters in order, to ensure the reliability of production processes, and gradually she has been able to relieve the director of current production problems. Along with the principal shops, she has under her the production division and the chief process engineer's division. Even though certain problems have remained unsolved, the results of concentrated management of production have been felt at the factory for the first time.

### Example 3

The position of the deputy director for production was introduced more than 3 years ago at a machinebuilding enterprise. The motives were as follows. The association has several branches located throughout the republic and numerous cooperative arrangements both within the association and also outside it. This was always raising a multitude of problems resulting in a

chronic lack of smoothness of operation. In spite of his competence and learning, the director was not able to concern himself personally and directly with current production in any thorough way.

For many years production has been coordinated by the chief of the production division. In essence he was the plant's chief production scheduler, and he settled all the production problems that arose, including those related to deliveries under cooperative arrangements. He was an educated and experienced production manager, and his vigor and personal prestige ensured more or less smooth operation of the plant's principal shops. After he left (he became deputy director in another organization, it proved altogether impossible to find a new chief of the production division of the same caliber, and this showed up in the performance of the entire association. First they had to create an independent division for external cooperative arrangements and then to introduce the position of deputy director for production.

The person first appointed deputy director for production was the former chief of the technical inspection division, a man who had worked for a long time in the association, but mainly as a specialist in the chief designer's division and as head of the supply division. In addition to the principal shops, his authority extended over the production division and the division for external cooperative arrangements. He had difficulty handling the latter division, and for that reason it was transferred to the deputy director for supply and sales. After a few years it also became evident that the new deputy was incompetent as a manager of production.

The new deputy director for production had been the chief of the planning division, who in effect was the association's chief economist. By education an engineer and economist and a man with a long period of service at the plant, he was abreast of all the principal problems. The appointment turned out to be a successful one for the association. Though no radical turnaround has yet taken place with respect to the smoothness of production, there have been several constructive improvements. The assembly of machines begins several days earlier, and the sales plan is being fulfilled more uniformly.

#### Example 4

The position of deputy director for production has still not been created at an electrical equipment enterprise for the following reasons. The plant is not an old one, it is about 20 years old. In the early years there was no need for such a position because of its small size. The director managed production quite satisfactorily. The picture changed basically in the years that followed. But then comparatively large shops with product specialization were formed. Multipurpose, independent and strong production subdivisions grew up. Several "little directors"--shop chiefs--emerged. In this situation only the functions of operational planning and regulation of production remained to the production scheduling division, which is subordinate to the director.



A major change of direction has occurred in the last 2 years. The plant has become a major enterprise with a large and well-staffed specialized design office. The old director has retired, and he has been replaced by the former chief engineer, whose work life has mainly been spent in the designing field. The new chief engineer also is a designer, and he, like the director, has little interest in production problems.

The role of the production scheduling division has been considerably enhanced as a result of these changes. The chief of the division has been replaced. The new chief, who has extensive production and managerial experience in this field, is regarded as a potential future deputy director for production. There is no hurry at the plant to carry out this conception, since the present system of production management is in general meeting its requirements. A very large new branch, which is the basis for introducing the position of deputy director for production, is still under construction.

The position of the deputy director for production has still not fully taken shape at enterprises. Explorations and trials are still being carried out. Decisions in this area reflect only expectations, attempts, requirements and possibilities in specific situations. No generally recognized and generally accepted foundations and principles have been formulated. This is a matter for the future.

After the director the deputy director for production is one of the first managers of the general-purpose type--the first representative of the principal activity, the person who is responsible for the final results of production. By contrast the chief engineer is a manager who is a specialist and is the first representative of a staff or functional area in the enterprise's activity, an area that is one of the foundations of production.

It is not a question of displacing the chief engineer from his present position; his excessively broad area of activity needs to be divided into more manageable parts and he needs to become a person who is able to concern himself more competently and extensively with conduct of the enterprise's technical policy. It must be borne in mind that today as many as 80 percent of the letters coming to an enterprise are addressed to the second in charge. The question of whether the present chief engineer or someone else should become the deputy director for production has no fundamental meaning. The main thing is that the position be held by the man who is most able to perform this difficult role. It is a matter of indifference whether it is the former chief engineer or someone else.

The formation of managers of the general type, who can successfully cope with the management of production, is now being done on a haphazard basis. It is based rather on abilities and inclinations of a particular individual, on the understanding and attention of the managers of an enterprise, and so on, than on a well-thought-out and systematized formal training in VUZ or on supplemental on-the-job training. Here there is a need for action along two lines. First, in the training of specialists in VUZ they



should be given better training concerning production; second, on the job there should be more concern about discovering potential candidates for general supervisory positions and about providing them with purposive training. It is from these men that one then gets the director and managers at a still higher level; there will always be a need for them.

Creation of the position of deputy director for production and reorganization of the organizational structure around him, like other organizational changes of a fundamental nature, is usually not an easy or rapid process. The principal difficulties does not lie in numerous functional problems, that is, organizational problems or problems with engineering and technology, but human problems, above all the habits of managers and specialists and of the entire collective.

The chief engineer of one enterprise said: "Sometimes I simply do not realize that out of habit I am now giving orders on production matters, although this field no longer concerns me directly." Successful transition to the new system requires thorough preparation, training of personnel, revision of organizational documents, and so on.

Improvement of management at industrial enterprises, including improvement of the organizational structure, is a task requiring constant attention and concern on the part of the management. In the simpler cases the solution to this problem lies fully within the power of the enterprise's own personnel. But in complicated situations, when radical changes are being made, it is advisable to call in consultants who have the knowledge and time for a more thorough analysis of the problem and for furnishing recommendations.

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STATUTE ON COMPLETE SET EQUIPMENT

Moscow EKONOMICHESKAYA GAZETA in Russian No 4 Jan 80 pp 7-8

[Joint decree of USSR Gosplan, Gosstat, and Goskomtsen, issued 27 December 1979, approving the statute: "Statute on Complete Set Delivery of Industrial Equipment, Automatic Lines, Installations, and Facilities for Mechanization and Automation and Management and Control"]

[Text] USSR Gosplan (State Committee for Material and Technical Supply), Gosstat (State Planning Commission), and Goskomtsen (State Committee on Prices) in a joint decree on 27 December 1979 approved a statute on the complete set delivery of industrial equipment, automatic lines, installations, and facilities for mechanization and automation and management and control. This document will become effective on 1 January 1981.

USSR ministry level suppliers of complete sets of industrial equipment, automatic lines, installations, and machine units were advised to determine by 1 May 1980 the head enterprise manufacturers (suppliers) and organizations that are responsible for the complete set supply and primary installation of industrial equipment, automatic lines, installations, and machine units. The ministry suppliers also were advised to prepare prospectuses and catalogs in 1981 that contain an index of the composition of the sets for each automatic line, installation, and machine unit, along with their manufacturing parameters.

The joint decree also approved the products lists for complete sets of industrial equipment, automatic lines, installations, and machine units upon which USSR Gosplan, USSR ministry suppliers and the USSR ministry (department) clients are developing production plans for the delivery to users (buyers (Enclosure No 1) and the products lists of complete sets of industrial equipment, automatic lines, facilities, and machine units for which the USSR ministries (suppliers) are developing, and, in agreement with USSR Gosplan, are approving the production plans for the manufacturers (suppliers), while USSR Gosplan is developing delivery plans for the users (buyers) (Enclosure No 2).

The statute was drafted in compliance with the decrees of the CPSU Central Committee and the USSR Council of Ministers No 695 of 12 July 1979 "On the Improvement of Planning and the Strengthening of the Influence of the Economic Mechanism on Increasing Production Effectiveness and the Quality of Work," and No 619 of 20 July 1978 "On the Further Development of Machine Building Between 1978 and 1980," with the goals of a broader shift in machine building to the complete set supplying of industrial equipment, automatic lines, installations, and facilities for the mechanization and automation and management and control, including increased factory preassembly.

Adherence to the statute is obligatory for ministries and departments, production associations, enterprises, organizations, and institutions.

#### 1. Development of Plans for the Production and Delivery of Complete Sets of Automatic Lines, Installations, and Machine Units

1.1 Complete sets of industrial equipment, automatic lines, installations, and facilities for mechanization and automation and management and control, which henceforth will be referred to as "complete sets of automatic lines, installations, and machine units," are an aggregate of equipment and other products and devices that ensure the obtainment of a final product for a specific industrial process.

1.2. In accordance with established procedures for formulating annual and five-year plans, the USSR ministry (department) and union republic councils of ministers clients furnish USSR Gosplan and Gosplan and ministry suppliers with orders for the

delivery of complete sets of automatic lines, installations, and machine units based on consolidated products lists for the sets.

Project plans for the manufacture and delivery of complete sets of automatic lines, installations, and machine units are developed by USSR ministry suppliers jointly with the USSR ministry (department) and union republic council of ministers clients based on the manufacturers (suppliers) and users (buyers), and are furnished to USSR Gosplan and Gossnab, respectively, simultaneously with the project plan for the planning period.

1.3. USSR Gosplan jointly with USSR ministry suppliers and USSR ministry (department) and union republic councils of minister clients formulate project plans for the production and delivery of complete sets of automatic lines, installations, and machine units based on the products lists provided in Enclosure No 1 to the USSR Gossnab, Gosplan, and Goskomsen decree No 86/208/819 of 27 December 1979.

Project plans for the production of complete sets of automatic lines, installations, and machine units, based on products lists provided in Enclosure No 2 to USSR Gossnab, Gosplan, and Goskomsen decree No 86/208/819, are developed by the USSR ministry suppliers and are approved by them in agreement with USSR Gossnab; while delivery plans are approved by USSR Gossnab.

Project plans for the production and delivery of complete sets of automatic lines, installations, and machine units are drawn up in coordination with plans for capital construction, material resources, and technological production cycles, along with schedules for equipment installation and tasks for placing production capacity into operation.

1.4. On the basis of project plans for the production of complete sets of automatic lines, installations, and machine units, the USSR ministry suppliers, within the composition of calculations of the total requirements, furnishes USSR Gosplan and Gossnab and USSR ministries (departments) and union republic councils of ministries calculations of requirements for materials and the complete products necessary for the manufacture of complete sets of automatic lines, installations, and machine units.

1.5. Plans for the production and delivery of complete sets of automatic lines, installations, and machine units, and balance sheets and plans for distribution that are approved by the USSR Council of Ministers or USSR Gosplan are included in the form of nominal lists and special enclosures in the section

"Industry" of draft state plans for the economic and social development of the Soviet Union.

1.6. Changes in plans for the production and delivery of complete sets of automatic lines, installations, and machine units in schedules for their manufacture and delivery, as well as substitutions of users (buyers) may be made in agreement with USSR Gosplan and Gossnab, respectively.

## 2. Project Planning for Complete Sets of Automatic Lines, Installations, and Machine Units

2.1. Project planning for complete sets of automatic lines, installations, and machine units is completed based on technical requirements (orders and engineering tasks) that are developed by planning organization general planners and approved by ministry (department) clients and the USSR ministry suppliers.

Engineering plans for the manufacture of complete sets of automatic lines, installations, and machine units are fulfilled by the head planning and design organization of a USSR ministry supplier or the head design organization developing the technological part of the plan for primary production for the user (buyer) and are approved by a ministry (department) client. If the management plan is developed by the planning and design organization of a USSR ministry supplier or the manufacturer (supplier) of an automatic line, installation, or machine unit, it should be coordinated with the planning organization general planner who has issued an engineering requirement (an order and an engineering task) for planning.

The planning organization general planner issuing the engineering requirement (the order and the engineering task), in agreement with the USSR ministry supplier, determines the limiting cost and the project cost for complete sets of automatic lines, installations, and machine parts.

If the engineering requirement (the order and the engineering task) are issued by a USSR ministry organization supplier, the limiting costs will be coordinated with the ministry (department) client.

In both cases, the limiting cost is recorded with USSR Goskomtsen in accordance with established procedures.

2.2. The head organization developing the engineering plan for the manufacture of complete sets of automatic lines, installations, and machine units has the right to involve scientific research, and industrial and planning and design organizations of other ministries (departments) in the planning and development of new machines and complete set products.



2.3. The manufacturing plan for equipment comprising complete sets of automatic lines, installations, and machine units and the compilation of client specifications are completed by a USSR head planning and design organization supplier or manufacturer (supplier) taking into account the specifications of the presenting organizations that developed the manufacturing blueprints for the complete set products.

2.4. The head planning and design organization of a USSR ministry supplier transmits, in response to a user (buyer) request, the required technical documentation for the manufacture of complete sets of automatic lines, installations, and machine units in accordance with their mutually agreed upon schedules and the drawing up of a delivery and receipt document.

2.5. When the manufacturing blueprints for equipment included in complete sets of automatic lines, installations, and machine units are developed by a USSR ministry planning and design organization supplier based on the engineering plan of a ministry (department) head planning organization client, the timely transmission to the manufacturer (supplier) of the technical documentation is done by the ministry (department) organization client in a volume and schedule specified in a contract signed by them.

### 3. Manufacture and Supply Procedures for Complete Sets of Automatic Lines, Installations, and Machine Units

3.1. Factors for deliveries of complete sets of automatic lines, installations, and machine units are regulated by the statute on the delivery of the output of production and technical goods, taking into account the specifications discussed in the present statute.

3.2. Bases for the signing of contracts for the delivery of complete sets of automatic lines, installations, and machine units are extracts from the approved plan for their production and delivery, which are delivered within a two-week period following the approval of the plan by USSR ministry suppliers and USSR ministry (department) and union republic councils of the ministers clients to the manufacturers (suppliers) and users (buyers).

3.3. When building and reconstruction projects are supplied, in accordance with existing procedures by the Main Administration for Assembling Equipment under USSR Gosstab or supply organizations of ministry (department) clients, complete sets of automatic lines, installations, and machine units are placed in the volume of deliveries carried out by the supply organizations in accordance with agreements between the manufacturers (suppliers) and the building and reconstruction enterprises.

3.4. USSR Gosplan, Gossnab, and ministries (departments) and the councils of ministers of the union republics make allowances in the plan for the allocation of a separate line of funds for materials and manufactured articles, and equipment required for the manufacture of complete sets of automatic lines, installations, and machine parts within schedules that ensure their timely manufacture and delivery.

3.5. The list and quantity of equipment and manufactured articles that comprise complete sets of automatic lines, installations, and machine units are determined by the manufacturing plan and the technical conditions, and when it is necessary, they are defined more specifically in accordance with an agreement between the manufacturers (suppliers) and the users (buyers).

3.6. The delivery of equipment and manufactured articles comprising complete sets of automatic lines, installations, and machine units is made in accordance with schedules established by the manufacturers (suppliers) of the lines, installations, and machine units and the users (buyers).

3.7. The wholesale prices for the complete sets of automatic lines, installations, and machine units are computed and approved according to established procedures.

Markups of 50 percent of the profitability are used in affirming the wholesale prices for complete sets of automatic lines, installations, and machine units.

A bonus markup is added to the wholesale price of complete sets of automatic lines, installations, and machine units which contain parameters that are equivalent to the finest domestic and foreign models. The markup bonus is increased by 150 percent in comparison with the size of such bonuses as set in accordance with the USSR Goskomtsen approved decree No 752 of 27 November 1979: "Instructions on the Procedures for Establishing Bonus Markups to the Wholesale Price for New Highly Efficient Technical Industrial Production and Discounts from the Wholesale Price for Second Category Quality, as Well as for Production Which Has Not Been Approved Within the Established Time Schedule."

Procedures for establishing the wholesale prices and the bonus markups for complete sets of automatic lines, installations, and machine units and applying an increased norm of profitability are approved by USSR Goskomtsen.

3.8. Calculations for complete sets of automatic lines, installations, and machine units are done using the method

specified in Paragraph 43 of CPSU Central Committee and the USSR Council of Ministers decree No 695 of 12 July 1979.

When a higher interest rate for the use of a loan is levied against the manufacturer (supplier) by bank institutions during the credit planning period through the fault of the user (buyer), the manufacturer (supplier) has the right to penalize the user (buyer) the amount of the levied interest.

3.9. Instructions for the delivery of complete sets of automatic lines, installations, and machine units unaccounted for in this statute are defined in special conditions for the delivery of equivalent types of production or in contracts.

#### 4. Quality of Complete Sets of Automatic Lines, Installations, and Machine Units

4.1. Complete sets of automatic lines, installations, and machine units must possess a high level of plant preassembly and conform with requirements for assembly technology in accordance with engineering tasks and plans.

Equipment comprising complete sets of automatic lines, installations, and machine units must be delivered assembled after inspections and tests are completed at the manufacturing enterprises. Outsize equipment that cannot be unloaded assembled is delivered in large pieces and assembled units, after undergoing intersectoral controlled assembly at the manufacturing enterprise in accordance with technical documentation.

The quality (reliability, durability, and other indicators) and completeness of equipment and manufactured articles comprising complete sets of automatic lines, installations, and machine units must agree with the standards or models (references) and contract specifications. The manufacturer (supplier) is responsible for the quality and durability of the equipment over the life of the guarantee.

4.2. During the planning and manufacture of equipment and the assembly of manufactured articles comprising complete sets of automatic lines, installations, and machine units, substantial changes in the engineering plans for equipment manufacture may not be made without approval from the users (buyers) and, in appropriate cases, from planning and design organizations. Such changes must be coordinated with the primary assembly organization within the department for plant preassembly and assembly of industrial equipment.

4.3. The quality of equipment comprising complete sets of automatic lines, installations, and machine units is attested by certificates, data sheets, and technical control section acts

on the completion of controlled assembling, balancing, and tests, which are sent, simultaneously with the unloading of the equipment, to the user (buyer), along with the technical conditions and the assembly characteristics, with the markings for delivered parts and the technical documentation on pipe assembly and communication. Similar documentation for the unloaded complete manufactured articles are appended by the manufacturer (supplier) of these articles.

#### 5. Primary Assembly of Equipment Comprising Automatic Lines, Installations, and Machine Units

5.1. The primary assembly of equipment comprising automatic lines, installations, and machine units is done in accordance with the requirements of the user (buyer) by the manufacturers (suppliers) in accordance with individual contracts agreed upon by them.

The manufacturers (suppliers) can call on primary assembly organizations to act as their subcontractors in carrying out the primary assembly of equipment.

Responsibility for the durability of equipment comprising complete sets of automatic lines, facilities, and machine units is held in every case by the manufacturers (suppliers).

The USSR ministry-level suppliers may assign the obligation for the primary assembly of the equipment to special organizations.

5.2. The manufacturers (suppliers) and the organizations accomplishing the primary assembly of the equipment that comprises automatic lines, installations, and machine units are obliged to dispatch a contract for the primary assembly of the equipment to the users (buyers) within a 10-day period from the day an inquiry is received from the user concerning the plans for such a contract.

5.3. The authority and the responsibility for the organizations completing the primary assembly of the equipment comprising automatic lines, installations, and machine units, as well as the conditions ensuring the normal organization of their work are determined by agreements between ministry (department) level clients and USSR ministry level suppliers or in a contract for the primary assembly of equipment.

5.4. Expenditures for the primary assembly of the equipment that comprises complete sets of automatic lines, installations, and machine units must be accounted for in estimates for the construction, expansion, and reconstruction, and planned retooling of enterprises and production systems, using procedures established by USSR Gosstroy.



5.5. The participants in the primary assembly of the equipment comprising complete sets of automatic lines, installations, and machine units will draw up an act.

5.6. The interrelationships between the manufacturers (suppliers) of equipment, manufactured articles, and materials designated for the manufacture of complete sets of automatic lines, installations, and machine units, including the property responsibility for the underfulfillment of contract stipulations, are regulated by the statute on the delivery of production and technical goods and the special conditions for the delivery of comparable types of production.

## 6. Property Responsibility

6.1. For overdue delivery or the underdelivery of equipment and manufactured articles within schedules that are specified in compliance with Paragraph 3.6. of this statute, the manufacturer (supplier) will pay the user (buyer) a penalty as established in Paragraph 50 of the statute on the delivery of production and technical goods or in the special conditions for the delivery of appropriate types of production. Adjustments for the underdelivery of equipment and manufactured articles are done in accordance with the procedure and schedule established in Section 31 of the statute on the delivery of production and technical goods.

6.2. The obligation for the complete set delivery of automatic lines, installations, and machine units is considered to be fulfilled when the unloading of all of the components of the equipment and articles is completely finished within the established contract period for the delivery of the automatic lines, installations, and machine units.

The manufacturer (supplier) pays the user (buyer) a fine in the amount of 2.5 percent of the cost of the automatic lines, installations, or machine units for an incomplete delivery. Under special delivery conditions, allowance may be made for a different set of fines as a factor of the complexity and volume of the delivery of the manufactured articles that comprise the complete sets of automatic lines, installations, and machine units.

Independently from the payment of a specific fine for a delivery of equipment and manufactured articles comprising complete sets of automatic lines, installations, and machine units, which involves a violation of the requirements for completeness set forth in standards, planning stipulations, or contracts, a fine relating to the cost of the equipment or the manufactured



articles will be levied against the manufacturers (suppliers) in accordance with Section 64 of the statute on the delivery of production and technical goods.

6.3. The guilty party pays the other party a fine of 100 rubles for every day of delay, but not to exceed 1,000 rubles, for each occurrence of unjustifiable deviations or delays in the completion of a contract for the primary assembly of complete sets of automatic lines, installations, and machine units (Section 5.2 of this statute).

The property responsibility for failure to fulfill or improper fulfillment of obligations for the primary assembly is specified in the contract for the primary assembly of complete sets of automatic lines, installations, and machine units.

For matters that are not addressed in this statute that arise during the design, production planning, manufacture, delivery, and primary assembly of complete sets of automatic lines, installations, and machine units, ministries and departments, production associations, enterprises, organizations, and institutions are referred to appropriate normative acts, standards, and construction norms and regulations.

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INSTRUCTIONS FOR COST ACCOUNTING IN DEVELOPING NEW TECHNOLOGY

Moscow EKONOMICHESKAYA GAZETA in Russian No 9, Feb 80 p 10

[Instructions\* approved by USSR Gosplan, USSR Ministry of Finance, USSR Gosbank, the State Committee for Science and Technology and the USSR State Committee for Labor and Social Problems and consented to by the AUCCTU on 31 January 1980: "Instructions on Procedure for Conversion of Scientific-Research, Design, Project Planning and Design, and Production Engineering Organizations and Scientific-Production and Production Associations (Enterprises) of Industrial Ministries to the Cost-Accounting System of Organizing the Work of Creating, Putting Into Production and Applying New Technology on the Basis of Job Orders (Contracts)"]

[Text] 1. In accordance with Decree No 695 of the CPSU Central Committee and USSR Council of Ministers, adopted 12 July 1979 and entitled "On Improving Planning and Increasing the Impact of Economic Instruments on Production Efficiency and the Quality of Performance," in order to speed up scientific-technical progress and to expand the output of highly efficient new products, industrial ministries are in 1980 to complete the transition of scientific research, design, project planning and design, and production engineering organizations and scientific-production and production associations (enterprises)\*\* to the cost-accounting system of organization of work to create, put into production and apply new technology on the basis of job orders (contracts). The job orders (contracts) state the end results of the work, including the economic benefit to the national economy, the entities responsible for performance and completion dates in all phases--from

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\* This procedure also extends to scientific research organizations and associations (enterprises) of industrial ministries previously converted to the cost-accounting system of organization of the work of creating, putting into production and applying new technology on the basis of job orders (contracts).

\*\* Hereafter scientific research, design, project planning and design, and production engineering organizations and scientific-production and production associations (enterprises) are referred to as "scientific research organizations and associations (enterprises)."

scientific research to application of the results of production, and also the material resources required, the amount and sources of financing and the material incentives for personnel.

2. The conversion of scientific research organizations and associations (enterprises) of the industrial ministry to the cost-accounting system of organizing the work of creating, putting into production and applying new technology is to be done by the ministry in agreement with the USSR State Committee for Science and Technology, USSR Gosplan, the USSR Ministry of Finance, the USSR State Committee for Labor and Social Problems, and the AUCCTU on the basis of the present Instruction. In so doing the ministry shall take into account the specific peculiarities of the industry.

3. In doing the preparatory work for conversion of scientific research organizations and associations (enterprises) to the cost-accounting system of organizing the work of creating, putting into production and applying new technology on the basis of job orders (contracts) the ministry is required to do the following:

i. analyze the scientific research activity of subordinate organizations and enterprises, evaluate the results of scientific research, research and development and work to put new technology into production in the previous period (5-year period or a series of years), study the results of application in the economy of the new technology created in the industry, determine the economic benefit obtained from its use, apply the constructive experience of industries operating under the conditions of the new system, and organize improvement of the businesslike qualifications of personnel at all levels of management;

ii. adopt organizational and technical measures aimed at obtaining a higher economic benefit in the economy from new technology produced by the industry, at improving the quality of products produced, at shortening the allowed (planned) time for creating new technology and putting it into production, at applying scientific management and developments that considerably reduce the labor intensiveness of production, above all in jobs involving heavy work and harmful working conditions, and at strengthening the role of bonus systems in creating new technology and putting it into production;

iii. draft measures to improve the work of subordinate scientific research organizations and associations (enterprises), at improving cost accounting and organizational structures of management, at strengthening those units concerned with the problems of science and technology, with skilled personnel and with improvement of the economic knowledge of personnel.

4. The volume of outlays for scientific research, experimental design and production engineering projects for the ministry shall be stated in the 5-year plan (in a breakdown by years) according to the norms adopted by the USSR State Committee for Science and Technology, USSR Gosplan and the USSR

Ministry of Finance for the 5-year period (broken down by years) in percentages of net output (normative), and in certain industries--in percentages of commodity output in comparable prices. The wage fund of personnel of these organizations shall also be stated on the basis of the norms adopted by USSR Gosplan and the USSR State Committee for Science and Technology for the 5-year period (broken down by years) in percentages of the volume of outlays for scientific research, experimental design and production engineering projects.

5. A unified fund for development of science and technology shall be created in the ministry to finance scientific research, experimental design and production engineering projects and to reimburse costs incurred in developing and putting into production new products and manufacturing processes and in introducing scientific management, and also additional costs to improve product quality and higher costs in the first years of production of a new product (at present the respective items are financed from the state budget and from deductions from the production cost of industrial products).

The unified fund for development of science and technology is to be built up with deductions from the planned profit of scientific-production and production associations (enterprises) at the rate established in the 5-year plan in percentages of net output (normative), and in certain industries--in percentages of commodity output. To finance particularly important scientific research projects that require sizable outlays, the resources of the state budget may also be used in addition to the resources of the unified fund for development of science and technology, by decision of the USSR State Committee for Science and Technology and the USSR Ministry of Finance.

The resources of that fund shall be built up and used in accordance with the Methods Guidelines on Procedure for Forming and Using the Unified Fund for Development of Science and Technology, adopted by the USSR State Committee for Science and Technology, USSR Gosplan, the USSR Ministry of Finance and the USSR State Price Committee on 11 September 1979 (No 407/197).

6. In order to stimulate scientific-technical progress in expanding the output of highly effective new products a material incentive fund, a fund for social welfare and cultural programs and housing construction, and a fund for development of the organization shall be created in scientific research, design, project planning and design and production engineering organizations converted to the cost-accounting system of organizing projects.

The resources of the economic incentive fund shall be built up and used in accordance with the Regulation on Procedure for Formation and Use of Economic Incentive Funds in Scientific Research, Design, Project Planning and Design, and Production Engineering Organizations, Production Associations and Enterprises Converted to the New System of Planning, Financing and Economic Incentives (Cost-Accounting System) of Work on New Technology, to be

adopted by the USSR State Committee for Science and Technology, the USSR State Committee for Labor and Social Problems, USSR Gosplan, the USSR Ministry of Finance and the AUCCTU.

In scientific-production associations economic incentive funds shall be formed and used in accordance with the Regulation on Procedure for Formation and Use of Economic Incentive Funds of Scientific-Production Associations, to be adopted by the USSR State Committee for Science and Technology, the USSR State Committee for Labor and Social Problems, USSR Gosplan, the USSR Ministry of Finance and the AUCCTU.

7. The industrial products produced shall be periodically evaluated as to their technical-and-economic level and quality, which shall be the basis for certification in the superior-, first- and second-quality categories.

Products shall be certified and recertified in accordance with Decree No 1093 of the USSR Council of Ministers, dated 11 December 1979 and entitled "On Further Enhancement of the Role of Certification of Industrial Products in Raising Their Technical Level and Improving Their Quality."

An incentive supplement to the wholesale price as a function of the annual economic benefit from the product's manufacture and use is established on highly effective new products for production and technical purposes that are on a par with the best Soviet and foreign exemplars, and a reduction from the wholesale price is envisaged for products in the second-quality category and products which are not certified within the prescribed period.

These wholesale price increases and deductions are made in accordance with Instructions on Procedure for Establishing Incentive Supplements to Wholesale Prices on Highly Effective Products for Production and Technical Purposes and Deductions From Wholesale Prices on Products in the Second-Quality Category and Also on Products Not Certified Within the Prescribed Period, adopted by the USSR State Price Committee on 27 November 1979 (No 752).

8. Bonuses shall be awarded to the personnel of scientific research organizations and associations (enterprises) of the industrial ministry as a function of the total economic benefit actually obtained in the national economy from use of the advances of science and technology and shall be paid in conformity with the Standard Regulation on Awarding of Bonuses to Personnel of Organizations Converted to the New System for Motivation of Work on New Technology, adopted by the USSR State Committee for Labor and Social Problems and the AUCCTU on 30 January 1978 (No 31/5-2).

Awards for the results of annual work shall be made to the personnel of these organizations and enterprises in accordance with the recommendations on the Procedure and Conditions for Payment of Awards to Personnel of Enterprises and Organizations of the National Economy for Overall Performance for the Year, adopted by the USSR State Committee for Labor and Social Problems in the AUCCTU.



9. In agreement with the USSR State Committee for Science and Technology, the USSR Ministry of Finance, USSR Gosbank and USSR Stroybank the ministry is to accomplish the gradual conversion during the 11th Five-Year Plan of scientific research, project planning and design, and production engineering organizations to the system of settlement for work completely finished and accepted by the customer instead of payment by stages. These organizations shall be converted in accordance with the Instructions on Conversion of Industrywide Scientific Research, Project Planning and Design, Production Engineering and Project Planning and Surveying Organizations to the System of Payment for Work Completely Finished and Accepted by the Customer, adopted by the USSR State Committee for Science and Technology, USSR Gosplan, USSR Gosstroy, the USSR State Committee for Labor and Social Problems and the USSR Ministry of Finance in agreement with the AUCCTU, USSR Gosbank and USSR Stroybank on 12 October 1979 (No 40-7/215).

10. USSR Gosbank and USSR Stroybank shall grant credit as follows:

1. to ministries and departments for projects financed from the unified fund for development of science and technology when during the year there is a discrepancy between the flow into that fund and the size of outlays made from the fund;

11. to scientific-production and production associations (enterprises), as follows:

a. to pay for projects financed from the unified fund for development of science and technology if these projects were completed in a shorter time than envisaged by the plan;

b. to carry out highly effective measures to develop science and technology not envisaged by the plan, the credit to be repaid and the interest paid from the unified fund for development of science and technology within 2 years from the date when the credit was granted. This credit is extended under a guarantee of the ministry or all-union (republic) industrial association.

At the beginning of the period of conversion to the cost-accounting system for organization of these projects USSR Gosbank, in agreement with the USSR Ministry of Finance, shall at the request of the ministry extend it credit in the amount necessary to finance scientific research, experimental design, and production engineering projects and measures related to putting new technology into production, and this credit will be repaid during the calendar year from the ministry's unified fund for development of science and technology.

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## PLANNING AND PLAN IMPLEMENTATION

### PLAN INTENSITY METHODOLOGICAL INSTRUCTIONS

Moscow EKONOMICHESKAYA GAZETA in Russian No 5 Jan 80 p 6

[Instructions approved by USSR Gosplan on 15 Jan 1980: "Methodological Instructions on Procedures for Determining Plan Intensity"]

[Text] These methodological instructions were prepared in compliance with decree No 695 of the CPSU Central Committee and the USSR Council of Ministers of 12 July 1979: "On Improving Planning and on Strengthening the Influence of the Economic Mechanism in Enhancing the Effectiveness of Production and the Quality of Work." The instructions contain the basic assumptions for the evaluation of the level of intensity of the five-year and annual plans formulated by production associations and enterprises.

1. The tasks for determining the intensity of five-year and annual plans that are developed by the labor collectives of production associations and enterprises are to:
  - a) ensure the further growth of production, its effectiveness, and the intensification of the economic system, and increase the quality of production;
  - b) evaluate the extent of agreement (approximate) of plans with normative requirements;
  - c) identify production resources and adopt counter plans and socialist obligations that ensure increases in plan intensity to advanced levels for each production association and enterprise;
  - d) account for plan intensity levels when determining the dimensions of the economic incentive funds and summing up the results of the socialist competition.
2. A plan is considered to be intense when it ensures the fulfillment of the established tasks and the rational use on a normative level of the production capacity and the expenditures of material, labor, financial, and other resources.

The normative level mentioned is calculated on the basis of a system of progressive and scientifically based technical and economic norms and normatives.

3. The initial base for determining the intensity of a plan comprises the production association or enterprise passports, a system of progressive norms and normatives, control figures and tasks approved by higher organizations, and the analysis of statistics and accounting data.

4. The system used for evaluating the plan intensity of a production association or an enterprise generally includes indices from those that were approved by higher organizations, as well as others that are critical for increasing the effectiveness of production and the quality of work:

- a) the use of production capacity;
- b) labor productivity (based on the individual worker);
- c) the proportion of the production of the highest category quality output (or other indices of the quality of output);
- d) the cost of production (profits resulting from reductions in the cost of production).

If required, other factors that may be included in the system of indices are: the shift operations of equipment, equipment loads, the capital-output ratio (the total or the credit portion), and the materials-intensiveness of production (or the proportion of expenditures for a unit of capacity and work), as well as the specific indices for a given industry or production system.

5. The level (coefficient) of plan intensity ( $C_i$ ), using an appropriate indicator, is determined by dividing the forecasted value of the planning indicator ( $A_{pl}$ ) by its normative value ( $A_{nt}$ ):

$$C_i = \frac{A_{pl}}{A_{nt}}$$

6. Calculations for evaluating the plan intensity of a production association or an enterprise are completed at every stage of plan development.

An example of the calculation of the coefficient of plan intensity based on production capacity is given below:

Art- icle	Norma- tive of Net Output*	Planned Output of Pro- ducts (Apl)		Average Annual Pro- duction Cap- acity (Ant)		Coefficient of Intensity (Ci)	
		I	II	I	II	I	II
A	1500	810	1215	900	1350	0.91	0.91
B	1800	930	1674	1100	1980	0.85	0.85
C	950	230	220	260	247	0.89	0.89
total (annual)			3109		3577		0.87

\*When the normative of net output is unavailable, the wholesale price of a unit of production is used.

I- in physical terms

II- in terms of value (thousands of rubles)

7. The coefficient of plan intensity is an analytical method of calculating an indicator. The optimum value of the coefficient of plan intensity is equal to a unit.

8. Plan intensity is evaluated primarily on the basis of a key indicator (in certain instances, on the basis of two key indicators), while the level of the remaining indices are calculated as supplementary evaluation criteria. When necessary and feasible, a grouping of individual indicators may be used.

9. The composition of fundamental evaluation indices for plan intensity is established by higher organizations as a factor of the specific tasks of an industry and the specifications for a given production system.

10. For each indicator adopted as a criterion for evaluating plan intensity, methods for determining normative values and procedures for their approval should be provided in the methodological instructions for an industry.

11. The composition of the evaluative indicators of plan intensity for planned tasks of shops, sections, brigades, and work places are determined by the management of production associations or enterprises as a part of the system of general indices established for the production associations or enterprises, taking the characteristics of the production system into account.

12. When calculating the values of the coefficient of plan intensity, it is necessary to begin with the indices of the production volume (output and the work performance) adopted for the formulation of the plan, taking into account the most comprehensive reflection of labor costs in a specific collective, the normative labor intensiveness, the natural measurment, the normative net output, the normative cost of processing, and other factors.



13. To achieve a steady increase in plan intensity and the attainment of its maximum possible value within the five-year and annual plans, production associations and enterprises develop measures that ensure the necessary growth in production, increases in its intensification and effectiveness, the strengthening of the economic system, and the avoidance of losses.

Here it must be kept in mind that the measures that simultaneously lead to an increase in production capacity also should ensure the additional output of goods (rendering of services).

An important role in increasing plan intensity should be played by counter plans, socialist obligations, rational proposals, and inventions.

14. Prior to the creation and approval of the normatives adopted for the evaluation of intensity within individual production associations and enterprises, indices of the system of plan intensity can be compared with the achievements of the leading enterprises having similar production characteristics. In this case, the relative (comparative) plan intensity is determined by dividing the indices for a given enterprise by the progressive value of the appropriate indicator for an association (enterprise) of a specific group.

The level of plan intensity for the leading enterprise that is used as a reference is calculated on the basis of the tasks and measures covered in its plan.

15. Plan intensity is determined in the following manner:

a) the data from the production association or enterprise at the beginning of the planning period are refined, including the technical and economic indices and the norms for the expenditure of all types of resources;

b) the effects on the passport indices and the normative base of the measures adopted and accounted for in the project plans (and in the plan) are calculated, particularly the section "Technical and Organizational Development of Production" (the creation and starting up of new types of production; the introduction of advanced technology and the mechanization and automation of production; the improvement of management, planning, and the organization of production; the introduction of the scientific organization of labor; the development of supplementary production; and so forth);

c) the dimensions for the putting into use and retirement of fixed capital funds and production capacity are established, and the level of mastering the planning and technical and economic indices and the normatives for new (reconstructed and retooled) projects and capacities are refined;

d) based on the adopted system of indices for evaluating plan intensity, the average annual values in the five-year plan



and the averaged quarterly values (in certain cases, the averaged monthly values) for the normatives in the annual plans are determined.

16. Calculations of the production capacity are done in agreement with special instructions No VL-1-D/4-66 for the calculations of the production capacities of existing industrial enterprises and production associations (combines), which were approved by USSR Gosplan and the Central Statistical Directorate on 13 January 1977 and developed on the basis of sectoral instructions.

At enterprises with planned capacity or individual projects that are in the stage of being put into operation, the normative capacity is calculated in accordance with the methodological instructions for determining the norms for the duration of operation of planned capacity and the economic indices for putting industrial enterprises and projects into operation that were approved by USSR Gosplan on 29 March 1979.<sup>1</sup>

Over the course of normative schedules for operations, the normative capacity is determined in the same manner as for existing capacities, independent from the levels of their actual use.

17. Calculated using scientifically based normatives and norms, the levels of intensity for a five-year plan, subsequently and during their fulfillment, can be refined in the annual plans (the technical output and financial plans), taking into account the effects of the adopted counter plans and the basic technical and economic factors on changes in plan intensity. These factors are combined in the following groups:

- a) increases in the technical level of production;
- b) improvements in the management and organization of production;
- c) changes in the volume and structure of production;
- d) improvements in the use of natural resources;
- e) sectoral and other factors.

18. The identification and use of reserves to increase plan intensity should become one of the most important conditions of the socialist competition of labor collectives in industrial

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1. "Methodological Instructions for Determining the Norms for the Duration of Operation of Planned Capacity and the Economic Indices for Putting Industrial Enterprises and Projects into Operation." Norms for the Duration of Operation of Planned Capacities of Industrial Enterprises and Projects. Moscow, "Ekonomika," 1979.

associations and enterprises and their production subdivisions, as well as a personal obligation of the members of the collective.

With the goal of heightening the interest of labor collectives in the developing and adopting of intensified plans, the level of their intensity is considered during the evaluation of plan fulfillment and the tabulation of the results of the socialist competition.

Accordingly, a listing is compiled at enterprises and production associations of the measures which can earn bonuses based on various categories of workers.

19. The level of plan intensity is considered during the formation and use of economic incentive funds in accordance with the established general instructions and procedures for forming such funds.

20. In compliance with these methodological instructions, ministries and departments develop and approve sectoral methodological instructions for the procedures for determining the plan intensity of production associations and enterprises within a given industry, which reflect the specific characteristics of their operations, and furnish examples of calculations and other required recommendations.

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## INVESTMENT, PRICES, BUDGET AND FINANCE

### BUNICH ELABORATES ON COST ACCOUNTING FINANCING

Moscow DEN'GI I KREDIT in Russian No 1, Jan 80 pp 23-30

[Article by P. G. Bunich, corresponding member of the Academy of Sciences USSR: "Questions of Improving Cost Accounting Relationships"]

[Text] One of the determining characteristics of the contemporary phase of development of the USSR economy is, as everyone knows, the reinforcement of economic accountability (cost accounting). To achieve this wages and stimulation funds are increasingly made directly dependent on net output and calculated profit, the final indicators of the work of economically accountable collectives.

But economic accountability has its greatest impact on production efficiency when the direct relationship between final results and resources left at the disposal of collectives applies to the other sources of reproduction as well. After all, if collectives are allocated most of their fixed capital and working capital from centralized capital investment and the increase in working capital is accomplished by budgetary distribution, that is, independent of the results of work, it is possible to maintain a high level of wages by eating away at sources earmarked for replacement and enhancement of technical facilities and by undermining stocks of materials. It is a different thing when all resources for simple and expanded reproduction must be engaged, when current and future funds for wages and incentives are "guaranteed" by technical progress and efficient working capital resources financed out of the collective's own income. Applying economic accountability principles, which began with the economic categories of wages and stimulation funds, to the sources of material support for production completes the process of creating an effective economic accountability mechanism; it eliminates the last "loopholes" through which wages can be increased regardless of the collective's concern for its own development. This may be viewed as the transition to a full, completed economic accountability mechanism that aims at raising production efficiency by every means, in both static and dynamic terms.

Long ago, analyzing the first phase of communist society in his "Critique of the Gotha Program," K. Marx wrote that "each individual producer receives back from society, after every thing is subtracted, exactly as much as he himself gives to society. That which he gave to society is his individual labor share. He receives from society a receipt which states that he has delivered a certain amount of labor (subtracting his labor on behalf of public funds) and with this receipt he receives from public stocks an amount of consumption goods on which the same amount of labor has been spent. It is apparent that the same principle reigns here as takes place in commodity exchange, because that is an exchange of equal values."<sup>1</sup> This principle is feasible when the value of output at each enterprise (for working people enter relations with the state as members of a particular collective, not "on their own") is applied to the fund for replacement of depleted means of production, the wages fund, the production expansion fund, and the reserve or insurance funds and deductions on behalf of public funds, which is mentioned in the same work by K. Marx.<sup>2</sup>

V. I. Lenin also pointed out numerous times that switching state enterprises to economic accountability is, to a significant degree, switching them to a commercial basis,<sup>3</sup> and commerce, of course, is trade, based on repayment of all expenditures with profit. V. I. Lenin emphasized the necessity for economically accountable collectives to be fully responsible for the results of their work in his letter to G. Ya. Sokol'nikov on 1 February 1922, where it is stated: "I think that trusts and enterprises on economic accountability were founded precisely for the purpose of being fully responsible for seeing that their enterprises do not lose money."<sup>4</sup>

Some believe that by "not lose money" V. I. Lenin meant only that enterprises would insure simple reproduction and repayment of material expenditures and wages. But if all enterprises are responsible for simple reproduction, they will be interested in it alone, and how will society as a whole achieve expanded reproduction? Where will it find adequate resources for this? The enterprises and society develop successfully only where they function on the same foundation, when there are standardized, uniform principles of economic activity. We should note, incidentally, that Lenin's demand that enterprises "not lose money" was formulated without restriction to simple reproduction. Therefore, it would be logical to understand this challenge to mean that reproduction as a whole should be done without losses.

Economically accountable self-financing is sometimes equated with turning state enterprises into cooperative enterprises. Self-financing and cooperative socialism, under this view, are presented as virtually the same thing. This is a flawed and dangerous viewpoint. Economically accountable self-financing based on public property reproduces that and nothing but that property. There is no change in the nature of public property, no reversion to ownership by particular

collectives under economical self-financing. Self-financing is merely a supplementary economic tool, one more lever to stimulate collectives to more efficient labor. It is nothing more than that.

A second mistaken interpretation of economically accountable self-financing is its absolutization, considering it the only acceptable form of financing. There are, in fact, spheres of activity and regions of the country where outright redistribution of finances within a sector by budgetary or equivalent means (including through the uniform fund for development of science and technology) produces an incomparably greater effect than self-financing. Some examples are providing sources for the development of pure science, designing and building fundamentally new types of complex products, development of new territories, and measures aiming at a social impact. Therefore, economically accountable self-financing is not a universal method of financing. It is only the best in a certain area, under certain conditions.

Enterprises owned cooperatively (that is, kolkhozes, producer cooperatives in extraction, production, and construction work, consumer cooperatives, and the like) have operated on self-financing principles since they were formed and do so today. These principles were also applied widely in the activities of state enterprises during the NEP period. They were also partially followed in later stages, primarily in simple reproduction and use of the enterprise (directors') fund. The CPSU Central Committee and USSR Council of Ministers decree entitled "Improving Planning and Strengthening the Influence of the Economic Mechanism on Raising Production Efficiency and Work Quality" envisions significant development of these principles in application to the tasks and distinctive features of the current phase. According to this decree, beginning with the 11th Five-Year Plan norms will be set for deductions from the profit left at the disposal of sectorial industrial ministries to finance capital investment, repay bank credit with interest, support increases in working capital, form the uniform fund for development of science and technology and economic stimulation funds, and for other planned expenditures to develop the sector. Where the ministry's own working capital is inadequate to finance capital investment in production projects the plans of the ministry will provide for bank credit and budget allocations. This entire system personifies economically accountable self-financing because there are usually no budget appropriations or they are used for a single purpose that is strictly limited in scope and time.

Two experiments preceded the large-scale use of economically accountable self-financing. The first involved share distribution of profit and was conducted by the Ministry of Instrument Making, Automation Equipment, and Control Systems, the Main Administration for Motor Vehicle Transportation in Moscow, the Belorussian Ministry of Motor Vehicle Transportation, the Latvian Ministry of Motor Vehicle Transportation, the Kazakh Ministry of Motor Vehicle Transportation, the



Georgian Ministry of Motor Vehicle Transportation, the Moscow Oblast Administration of Motor Vehicle Transportation, the Belorussian Ministry of Industrial Construction, the Lithuanian Ministry of Construction, the Belorussian Ministry of Installation and Special Construction Work, the Main Administration for Engineering Construction in Moscow of the Moscow City Executive Committee, the Belorussian Ministry of the Building Materials Industry, the Belorussian Ministry of the Timber and Wood Processing Industry, and others. The second experiment involved stimulation of technical progress (creating a single fund for the development of science and technology, systems of price supplements for quality and efficiency, and so on) and was conducted by the Ministry of Electrical Equipment Industry and 14 other USSR ministries. The experiments led to a number of positive results. Enterprises paid more attention to profit and improvements in their products, and scientific work became more closely related to the needs of the sectors. The two experiments were consolidated into a single overlapping system to realize the full range of advantages of an experimental check of the activities being analyzed. The Ministry of the Electrical Equipment Industry, Ministry of Heavy and Transport Machine Building, Ministry of Power Machine Building, Ministry of Agricultural Machine Building, and a number of other ministries began working under this scheme. A similar system was envisioned for all industrial ministries by the decree of the CPSU Central Committee and USSR Council of Ministers on improving the economic mechanism.

With all its advantages, the system of economically accountable self-financing that is being disseminated still does not create a direct relationship between the results of the economic activity of collectives and the amount of cost accounting income. The enterprise share of profit is determined on an individual basis. Enterprises with high indexes may form comparatively small economic accountability funds if this follows from planned proportions. On the other hand, collectives whose indexes are modest have the right to keep major resources for themselves if this is necessary to society at large. This method serves the plan, which is its strong point. The essential characteristics and role of the plan in a socialist economy, where it is precisely during the planning process that decisions being made are thoroughly substantiated, the most economical ways to achieve goals are found, and the best alternatives of development are determined, lead us to this understanding of financing. The subsidiary, service role of financing in such a situation is its most effective role. Then when practical experience necessitates planned adjustments and new decisions, the financing system should adapt smoothly, quickly, and operationally to the modified plan assignments (through a system of special finance reserves, planned corrections to include changes in financial flows, and so on).

But the established procedure enables collectives to count on not just their own achievements, but also on getting "favorable" norms for deduct from profit for their own use. Under the present system the

one who comes out on top is sometimes not the one who gave a great deal, but rather the one who took a great deal. This is its weak point.

The collectives' own capital for financing centralized capital investment is allocated to collectives. It is nominally their own, but if these investments were not envisioned by the national economic plan the capital would be taken into the state budget. In other words, this is not really their "own" capital as much as it is budget capital left in the local area to create "transit finance transfers" and bolster the collectives' interest in fulfilling profit and depreciation plans.

Credit for centralized investment is repaid not from assigned cost accounting funds, but essentially by reducing profit taken into the state budget, in other words, essentially at the expense of the budget. The second source for repayment of loans for centralized capital investment is depreciation against renewal to the extent that, in the absence of repayment of credit, it also would be redistributed outright.

Noncentralized capital investments are in fact carried on primarily through assigned cost accounting capital. But they play a comparatively small part. Moreover, even here there are opportunities to bring in non-cost accounting sources. When determining payback time and sources for repayment of credit for production of consumer goods it is authorized to consider also up to 50 percent of the turnover tax, income which at the present time is not assigned by cost accounting procedures.

Up to 15 percent of the depreciation deductions designated for capital repair go into outright redistribution within the sector.<sup>5</sup>

The functions of the fund for production development have been narrowed somewhat. Specifically, they are not used to finance increases in working capital. This is done by reducing the planned amount of profit and the amount of profit subject to payment to the state budget. This means it is a budget source, not true economically accountable self-financing.<sup>6</sup>

The question arises: is it possible to construct a system which involves, at one and the same time, the primacy of the national economic plan and self-financing through the formation of income, not by getting favorable norms. This is indeed a problem that deserves attention. Whether there will be true self-financing or not depends on the solution.

Economic accountability can be "woven into the fabric" of the plan, in our opinion, not only by establishing straight-line individual norms for deductions from profit to be used by collectives, but also by another, more complex but also more effective, method. To achieve the desired result it is advisable to review and test experimentally a model of distribution of calculated profit consisting of the following stages: in this case calculated profit is equal to balance profit minus not just the payment for capital, rent, and fixed payments, but

also interest on credit. The first thing necessary is to establish the size of production development funds at the level of the needs of economically accountable collectives for comparatively small "tactical" capital investment and increase in working capital, that is, at the level of financing of expenditures which will be decided upon by the associations (enterprises themselves within the framework of their information and perspective, not conflicting with national economic interests and national economic information). In reality, decisions made in the local area on questions of replacing old equipment with new equipment, small-scale modernization, capital repair of existing fixed capital, growth in working capital, and other matters coincide in principle with national economic decisions, except that they are better because they are more accurate and more operational. This means that such decisions do not need any special national economic "surveillance" or refinement. The whole question is correctly calculating norms for each sector for deduction from calculated profits to production development funds for the level of fund-formation indexes. Where necessary these norms will be differentiated depending on the structure of fixed capital in various sectors, the proportion of its active part, the degree of wear and rate of increase in it, the period of turnover of working capital, and other factors.

After subtracting the amount going to form production development funds from calculated profits (before this, the profit should be reduced by the analogous sums of incentive funds calculated at special norms that express the socially necessary "replacement" of the permanent part of earnings out of the variable part for the final collective result), the principal question arises: distribution of the remainder. It must be remembered here that the remaining calculated profit differs quite significantly at different enterprises.

Wholesale prices for scarce goods are, of course, higher than prices for articles produced in adequate amounts. In the first case, therefore, the calculated profit will be greater than in the second. Where the rate of payment for capital is even and there are several different norms for deductions to the production development fund the associations (enterprises) producing scarce products will receive a significant advantage in cost accounting income compared to associations (enterprises) that produce readily available goods. Part of this surplus should, in our view, be withdrawn by a progressive income tax, because its occurrence cannot be attributed entirely to the achievements of the collective.

From the "remaining" balance of calculated profit it is necessary to subtract capital for accelerated repayment of long-term credit taken during those periods of development of the collectives when their incomes were lower than their need for planned growth. After this (although before would be better) it is wise to reserve part of calculated profit for the financial reserves of the collectives (before they are

filled in conformity with norms) which have been "devastated" in the past by a shortage of capital for planned needs.<sup>7</sup>

Then the "free" calculated profit should be correlated with the assignments established for the collective from above with respect to centralized capital investment and growth of working capital related to it. If they are equal economic accountability self-financing and planned needs coincide. But such coincidence is possible only by accident. Therefore we should review the standard case where the cost accounting income and planned needs do not coincide. Let us take a situation where income exceeds the needs set by society. Then the excess should be reduced by a progressive tax and the remainder spent for increasing production development and incentive funds (with additional tax regulation of the total sum of earnings and initial and final deductions to the material incentive funds calculated per employee).<sup>8</sup>

Where there are taxes on calculated profit, on the surplus of average total income calculated per employee above a normative level, and possibly a tax on the production development fund, the question arises of a special income tax on individually paid incomes.<sup>9</sup>

When cost accounting income is inadequate to finance the needs of planned development, the amount lacking may be obtained from financial reserves created earlier or from credit granted for planned needs.<sup>10</sup> This is the basic scheme for subordinating economic accountability self-financing to the guiding principle of our economy, which is planning. According to this scheme the collectives themselves earn the capital for their development, but the central planning agencies decide where most of it is to be spent. In a planned socialist economy the accumulation of resources and determination of their further destiny are not the same thing.<sup>11</sup>

Although surpluses and shortages of cost accounting resources compared to essential economic needs are subject to different forms and methods of regulation, I would like to observe that under certain conditions the need for such regulation at all is minimal.

In the first place, to the extent large amounts of calculated profit are typical of sectors which produce scarce output which the economy needs greatly and is allocating major capital investment to obtain, excesses of income in highly profitable sectors will generally find planned utilization right where they are formed.<sup>12</sup>

In the second case, within the framework of large associations available capital quite often corresponds to national economic needs. According to the General Statute on the All-Union and Republic Industrial Associations, the all-Union industrial association insures full repayment of production expenditures, maintenance of the administrative



apparatus, payments to the budget and bank, development of the association, formation of funds and reserves, and the like.<sup>13</sup>

In the third place, the practice of building general facilities that serve the needs of several enterprises is expanding. The enterprises themselves allocate capital for their formation. This provides a new way to use cost accounting resources efficiently. There were 8,906 interfarm enterprises, organizations, and associations in agriculture alone in 1978, with 137,400 participating farms.<sup>14</sup>

In the fourth place, with adequately high payments on behalf of society the probability of a shortage of capital increases, and this is simpler to regulate than a surplus.

In the fifth place, as optimization of the economy progresses it will be increasingly characteristic for accumulative resources and plan assignments to coincide, not deviate from one another.

Economic accountability self-financing, as already observed, is linked to the development of credit. At the present time credit has a comparatively small part in fixed capital in our country. In 1976 the share of bank credit in the total volume of sources of centralized investment for state and cooperative enterprises and organizations was 5.9 percent<sup>15</sup>; it was higher, 18.9 percent, for financing noncentralized capital investment.<sup>16</sup> This is no accident. Investment loans have been viewed primarily as a means of responding to situations not envisioned by the plan.

In the future loans will be used first and foremost as planned regulators of economic accountability self-financing. This follows from the established procedure for making up a planned shortage of economic accountability resources through planned credit. The experience of various socialist countries where loans play a large part in investment financing testifies on behalf of this conclusion.<sup>17</sup>

In order to further the development of credit relations we must shut off broad enterprise (association) access to the use of budget and other non-cost accounting funds, synchronize the availability and movement of loans with material-technical resources, and determine precisely the times and procedures for repayment of them.

There are substantial differences in repayment times for loans granted in different sectors and for different projects. Credit granted to industry as centralized capital investment for the construction of new enterprises is repaid within no more than five years. Credit for state capital investments beyond the credit ceiling for highly efficient steps to produce new output, raise the quality of products being produced, and expand the production of consumer goods, and improved domestic services will be granted with repayment of the



loan out of additional profit over a period of up to two years. Loans for centralized capital investment in agriculture must be repaid within 20 years, while for noncentralized investment the period is six years. There are spheres where no normative payback times are set at all, for example in granting credit for centralized investment in reconstruction of industrial enterprises.

The repayment period for loans for capital investment must be reconciled with the circulation of the value of the productive capital and depreciated service life. If the depreciation fund designated for replacement is used to repay investment loans, in the full service life of the object the bank will recover the entire loan and the economically accountable collective will experience no financial difficulties. After all, capital renewal is not needed until a certain time, and the depreciation deductions for this purpose are unrestrained. The need for capital will arise only when the old volume is written off and must in fact be replaced. The amount of capital renewal funds used to repay credit will have to be replaced from another source, for example extended credit or accumulated above-norm profit.<sup>18</sup>

When credit is repaid faster than capital renewal time, the depreciation deductions will count against replacement within the limits of its accumulation in the shortened period. In other words, they are inadequate to cover the entire loan. The only place to look for the missing amount is in profit. If this profit is equal to normative profit and the bank interest taken from it is not less than the payment for capital (this condition is essential so that credit resources will not produce a smaller return than budget appropriations)<sup>19</sup> the difference between normative profit and loan interest will be equal to the normative cost accounting income. Under these conditions, using profit to accelerate repayment of credit will be equivalent to "intruding" in normative cost accounting income and will put the association (enterprise) in a difficult position. Only above-norm profit can be used to accelerate loan repayment, but not all enterprises have such profit and, therefore, this cannot be grounds for instituting a general rule on repayment of investment credit more rapidly than the capital renewal time. In various socialist countries long-term loans are granted for a period that corresponds or is close to the capital renewal period. For example, in Poland loans for building new projects are granted for 8-20 years, while for reconstruction of existing ones the times are 5-14 years, in Czechoslovakia the figure is 8-12 years, in Romania 10 years, and in Hungary — 8 years.<sup>20</sup> Accordingly, loans are repaid primarily by depreciation against capital renewal. This system is particularly well developed in Poland.

There is also great variation in setting the starting times for repayment of long-term loans. If they are granted for centralized capital investment in industry, repayment begins after the project is launched. Loans for noncentralized industrial investment must be repaid from the

day of issuance. Credits for noncentralized capital investment by sovkhozes begin to be repaid from the sixth year after they are issued, while for noncentralized capital investments repayment begins when the project is put into operation. There should be standardization of starting times for loan repayment so that they begin after a normative period for construction of the fixed capital (the interest should be accumulated from the moment that the credit is issued).

Self-financing cannot be considered full if it does not compensate for the full prime cost, or if collectives do not make all essential payments to society or make them in reduced amounts. The CPSU Central Committee and USSR Council of Ministers decree on improving the economic mechanism outlined steps to take fuller account of expenditures for production. These measures include institution of a payment for water and a rise in rates and payments for state social insurance. A review of wholesale prices is planned with the particular purpose of determining precise prime costs. At the same time the economic appraisal of plots of land will be taken into account only in the stage of technical-economic substantiation of construction, and not during their economically accountable activities. The increase in the price charged for geological exploration or increase in the cost of fixed capital being introduced by the amount of this work deserves attention. It seems correct to transfer the receipt of part of the information to a compensated basis which reflects the impact of this information. Numerous economists are correctly raising the question of instituting wage-dependent enterprise payments to reflect in prime cost the normative effect of expenditures by society to train cadres and expenditures for other public consumption funds.

The planned reduction of exemptions on the payment for capital will help the development of true self-financing. The problem of expanding rent payments is pressing; at the present time they have been introduced only in petroleum and gas extraction, asbestos production, and two raw material deposits for ferrous metallurgy. These payments are not well oriented to sufficiently complete recovery of the primary types of mineral products (the coefficient of petroleum extraction from pools at most deposits is not more than 50 percent<sup>21</sup>, and on the average 20-25 percent of explored resources remain in the ground<sup>22</sup>). Moreover, rent payments do not stimulate proper recovery of by-products. Rent for favorable deposits is by no means collected everywhere.

Self-financing resources, above all profit, are artificially broadened by the lack of several penalty payments. In particular, there has been no payment for discharging waste water into natural bodies of water since 1962,<sup>23</sup> and the earlier payment was too low and had no impact. Under current conditions it would be advisable to return to this issue and establish effective penalties for damage to the actual environment. Profit is also overstated when penalties collected from economically accountable partners are too small. The fact that

interest is not computed for enterprise monetary capital kept in banks also tends to reduce profit. Only the kolkhozes receive interest on their deposits, at a rate of 0.5 percent annual interest.<sup>24</sup>

The preservation of excess elements of redistribution of capital within sectors from enterprises with good results to enterprises with comparatively poor indexes hampers consistent introduction of economic accountability self-financing. For example, deductions to uniform funds for the development of science and technology are differentiated at many enterprises proportional to their incomes. But the practice of uncompensated redistribution of working capital has not been completely overcome. The use of sectorial reserves related to material supply, the wages fund, production volume, capital investment, and other sources to support associations (enterprises) where problems with fulfillment of plan assignments occur is redistributive in nature.

If economic accountability self-financing is adequately developed, and wages and reproduction as a whole are covered by the earnings from economically accountable activities, the interest in overstating requests for investment should disappear. This will raise the question of whether the payment for capital is needed (interest on credit, rent payments, and the like are essential under self-financing as well). The solution to this question will depend on the comparative efficiency of various methods of accumulating part of the income of associations (enterprises) on behalf of society and on the scale of cost accounting funds assigned to local areas (where they increase there may be no available profit for the payment for capital or it may be insufficient). Taxes on profit, share deductions to the state budget, and the like may be alternatives to the payment for capital. The payment for capital has been abolished in Bulgaria and Yugoslavia. It will no longer be used in Hungary beginning in 1980. There is nothing surprising in this if the payment for capital is considered as a tool for stimulation and redistribution of resources, not an objective category of the economic mechanism.

These are a few of the problems that must be resolved for the continued development of economic accountability self-financing. There are various other difficulties that must also be overcome. But the effect justifies the expenditures, so the efforts are not in vain.

#### FOOTNOTES

1. Marx, K., and F. Engels, "Soch." [Works], vol 19, p 18.
2. Ibid.
3. Lenin, V. I., "Poln. Sobr. Soch." [Complete Works], vol 44, p 54.
4. Ibid., vol 54, p 150.

5. If the depreciation deductions are left to the associations, they will have major financial resources. In 1977, for example, 28 percent of capital investment was carried out through capital renewal (Khachaturov, T. S., "Effektivnost' Kapital'nykh Vlozheniy" [Efficiency of Capital Investment], Moscow, Ekonomika, 1979, p. 79). But to the extent that the subject is large associations depreciation deductions can usually be used efficiently in the local areas and accordingly should be a cost accounting assigned resource. In certain cases there will be exceptions to this rule as there are to any rule. Here they will involve outright centralized redistribution of the depreciation fund.
6. The production development funds in Bulgaria, Poland, and Hungary include financing growth of working capital (Butakov, D. D., "Kredit i Intensifikatsiya Proizvodstva v. Stranakh SEV" [Credit and Intensification of Production in the CEMA Countries], Finans., 1976, p. 23).
7. The prime cost of an electric coffee pot, for example, decreases 40 percent in the second year of production compared to the first year, and 50 percent in the fifth year (that is, the drop in prime cost slows down); expenditures for a step ladder decrease by 20 and 35 percent respectively. Reserves are filled up at this time.
8. Because calculated profit is adjusted several times by taxes and true net profit is only that which remains for the collective in the end, it turns out that the calculated profit distributed initially in the present scheme (subtracting payments to society) contains an excess over net profit.
9. The tax mechanism for balancing the profit remainder with national economic proportions is used, in particular, in Bulgaria (in the form of a tax on the residual amount of growth in the wages fund), in Hungary (in the form of a tax on the wages fund, a tax on imported equipment, and a production tax), in Poland (by direct taxation of part of gross profit, the bulk of which is collected as a given percentage of the value of fixed capital and stocks of commodity-material assets, while the supplementary part is progressive depending on the factors that caused the increase in profit over the preceding year; a tax on the wages fund, a progressive tax on the part of profit beyond the norm put into the production development fund, and a sharply progressive tax on the part of profit beyond the norm going to the bonus fund), and in Czechoslovakia (tax on planned and above-plan profit). "Khozyaystvennyye Mekhanizmy SSSR i Ryada Drugikh Stran Sotsializma (Informatsionno-Analiticheskiy Obzor)" [Economic Mechanisms of the USSR and Several Other Socialist Countries (Information and Analytic Survey)], Yevstigneyev, R. N. (editor), IEMSS AN SSSR, Moscow, 1979, pp. 32, 33, 45, 74, 75.



10. There are enterprises which do not have to be enlarged, for example where mineral resources are being depleted, and enterprises of optimal size, in particular agroindustrial complexes which have all the equipment they need. The cost accounting incomes in such cases will exceed essential amounts. The surplus part should, apparently, be transferred to that new enterprise to which workers of the collective that is closing, for example a mine, are being transferred, and in some cases the income may simply be taken for the use of society.
11. For example, since 1966 in Hungary production capital investment following centralized state decisions is usually financed through credit and enterprise development funds (Golubeva, V. I., "Sistema Planirovaniya i Upravleniya Narodnym Khozyaystvom v Vengerskoy Narodnoy Respubliki" [The System of National Economic Planning and Management in the Hungarian People's Republic], Moscow, Nauka, 1978, p 135).
12. Existing wholesale prices, unfortunately, give a profit advantage not only and not so much to the production of scarce goods as to light and food industry, petroleum refining, and machine building. Despite the critical need to increase the production of coal, it is an unprofitable sector. The profitability of logging, electric power, and the building materials industry is low. At such prices self-financing would leave the coal industry without the necessary capital investment and give light and food industry excess capital. These contradictions will in large part be eliminated by the reform of wholesale prices of 1 January 1982.
13. SP SSSR 1973, No 7.
14. "Narodnoye Khozyaystvo SSSR v 1978 g" [The USSR Economy in 1978], Moscow, Statistika, 1979, p 268.
15. See Fedorenko, N. P., "Nekotoryye Voprosy Teorii i Praktiki Planirovaniya i Upravleniya" [Some Issues of the Theory and Practice of Planning and Management], Moscow, Nauka, 1979, p 289.
16. See FINANSY SSSR 1978, No 1, p 15; Senchagov, V. K., "Problemy Izmereniya i Stimulirovaniya Effektivnosti Osnovnykh Fondov" [Problems of Measuring and Stimulating Efficiency of Fixed Capital], author's abstract of dissertation for the degree of doctor of economic sciences, Moscow, MINKh im. G. V. Plekhanova, 1975, p 33.
17. For example, it is 55.0 percent in Poland (1975), 49.8 percent in Bulgaria (1976 plan), 27.3 percent in Czechoslovakia (1975), 26.8 percent in East Germany (1974, in industry), and 14.3 percent in Hungary (1973). (Butakov, D. D. op. cit., fn 6, pp 27, 122).



18. Under this procedure the entire depreciation for capital renewal is transferred to the bank by the end of the normative service life of the object; therefore, even if the particular object continues in service, the payment for capital should not be charged for it.
19. The existing rate of interest for investment capital is too low. For loans for centralized capital investment in industry the charge is 0.5 percent a year on the unpaid part of the debt, while at sovkhozes it is 0.75 percent. For comparison we can point out that the rate of interest for long-term credit for new fixed capital in Hungary is nine percent, while in Poland it is eight, in Czechoslovakia six, in East Germany five, and in Romania four percent (see Butakov, op. cit., fn 6, p 41). The average interest rate for long-term credit in the United States is six percent. The use of understated interest rates artificially freezes part of profit to repay credit for fixed capital ahead of the capital renewal date.
20. See Butakov, op. cit., fn., pp 29, 30, 201. There are economists who suggest issuing loans for centralized capital investment for a period which is shorter not only than the capital renewal period but even the normative repayment period; in this case they do not supplement depreciation with profit, but rather completely eliminate depreciation. "Depreciation cannot be diverted to repay loans without disturbing conditions for the normal process of reproduction of fixed capital" (Avdiyants, Yu. "Kredit i Povysheniye Ekonomicheskoy Effektivnosti Proizvodstva" [Credit and Raising the Economic Efficiency of Production], Moscow, Finansy, 1972, p 79).
21. See EKONOMICHESKAYA GAZETA 1974, no 11.
22. See PRAVDA 29 January 1976, p 3.
23. See PRAVDA 26 September 1977, p 3.
24. Interest is paid on capital in enterprise current accounts in Bulgaria, East Germany, and Romania and for time deposits in Bulgaria, Hungary, Poland, and Czechoslovakia (Butakov, op. cit., fn. 6, p 41).

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